

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Owsley County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2003**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY CLERK

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the Owsley County Clerk's audit for the year ended December 31, 2003. We have issued a disclaimer of opinion on the financial statement taken as a whole.

Report Comments:

- Public Funds Should Be Deposited Into Interest-Bearing Accounts
- Payroll Records Should Be Adequately Maintained
- Payments Should Be Made From The 2003 Year Account For All 2003 Year Expenditures
- The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts
- The Clerk Had Disallowed Bank Charges of \$1,435 As A Result Of Bank Overdrafts
- The Clerk Should Retain All Bank Statements And Cancelled Checks
- The Clerk Should Not Commingle Public And Private Funds
- The Clerk Should Make Deposits In A Timely Manner
- The Clerk Should Make Payments In A Timely Manner
- The Clerk Retains Cash In An Unsecured Desk Drawer
- The Clerk Makes Deposits Of Cash Only, At Inconsistent Intervals
- The Clerk Did Not Post All Receipts And Disbursements
- The County Clerk Did Not Comply With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

Deposits:

FDIC Insurance of \$100,000 was sufficient to cover the clerk's highest balance day and at year end, therefore it was unnecessary to be collateralized by bank securities.

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ROSS & COMPANY, PLLC
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The Honorable Cale Turner, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk.

The Owsley County Clerk did not maintain adequate accounting records to allow us to verify the receipts, disbursements, and excess fees and determine the validity of the transactions for the year ended December 31, 2003. We were unable to apply procedures to determine whether the financial statement is presented fairly in conformity with the regulatory basis of accounting and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Owsley County Clerk's records did not permit the application of other auditing procedures to revenues, expenditures, and excess fees for the year ended December 31, 2003.

Since the Owsley County Clerk did not maintain adequate accounting records and we were unable to apply other auditing procedures to satisfy ourselves as the cash receipts, disbursements, and excess fees, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Based on the results of our work, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Public Funds Should Be Deposited Into Interest-Bearing Accounts
- Payroll Records Should Be Adequately Maintained
- Payments Should Be Made From The 2003 Year Account For All 2003 Year Expenditures
- The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts
- The Clerk Had Disallowed Bank Charges of \$1,435 As A Result Of Bank Overdrafts
- The Clerk Should Retain All Bank Statements And Cancelled Checks
- The Clerk Should Not Commingle Public And Private Funds

The Honorable Cale Turner, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

- The Clerk Should Make Deposits In A Timely Manner
- The Clerk Should Make Payments In A Timely Manner
- The Clerk Retains Cash In An Unsecured Desk Drawer
- The Clerk Makes Deposits Of Cash Only, At Inconsistent Intervals
- The Clerk Did Not Post All Receipts And Disbursements
- The County Clerk Did Not Comply With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Owsley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Grants	\$	23,481
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State Fees For Services		1,991
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Fiscal Court		34,482
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	96,782
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Usage Tax		86,757
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Tangible Personal Property Tax		210,427
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Licenses-

Fish and Game		15,570
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Marriage		1,967
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Deed Transfer Tax		2,867
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Delinquent Tax	32,456	446,826
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	2,547
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Real Estate Mortgages		2,004
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Chattel Mortgages and Financing Statements		12,831
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Powers of Attorney		912
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All Other Recordings		3,038
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Charges for Other Services-

Candidate Filing Fees		1,496
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Miscellaneous	5,486	28,314
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Total Revenues	\$	535,094
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 72,254

Usage Tax 84,155

Tangible Personal Property Tax 78,967

Licenses, Taxes, and Fees-

Fish and Game 15,931

Delinquent Tax 2,706

Legal Process Tax 4,071 \$ 258,084

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 19,591

Delinquent Tax 3,902

Deed Transfer Tax 2,580 26,073

Payments to Other Districts:

Tangible Personal Property Tax \$ 109,170

Delinquent Tax 22,375 131,545

Payments to Sheriff 180

Payments to County Attorney 362

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 32,177

Contracted Services-

Advertising 110

Libraries and Archives Grant Expensed 23,481

Materials and Supplies-

Office Supplies 172

Other Charges-

Postage 3,823

Utilities 1,743

Miscellaneous 570 62,076

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Total Expenditures		\$	478,320
Less: Bank Overdraft Charges			<u>1,435</u>
Total Allowable Expenditures		\$	<u>476,885</u>
Net Revenues		\$	58,209
Less: Statutory Maximum	\$	54,645	
Expense Allowance	<u>3,600</u>		<u>58,245</u>
Balance Due County Clerk		\$	<u><u>(36)</u></u>

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk's deposits were fully insured at a 100% level with FDIC Insurance as of December 31, 2003.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives for \$23,481 during calendar year 2002. The unexpended grant balance was \$23,481 as of December 31, 2002. Funds totaling \$23,481 were expended during 2003. The unexpended grant balance was \$0 as of December 31, 2003.

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COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

Public Funds Should Be Deposited Into Interest-Bearing Accounts

The Clerk should deposit public funds into interest-bearing accounts. We recommend the Clerk comply with the Uniform System of Accounts, KRS 68.210.

County Clerk's Response: Will correct.

Payroll Records Should Be Adequately Maintained

Only a few supporting records were found for payroll. We recommend that the Clerk maintain a payroll ledger for all employees for all pay periods during the year.

County Clerk's Response: Will correct.

Payments Should Be Made From The 2003 Year Account For All 2003 Year Expenditures

The County Clerk paid expenditures for 2002 out of the 2003 account. We recommend that the Clerk write a check from the 2002 account to the 2003 account for \$257, and make payment on invoices in a more timely manner in the future.

Clerk's Response: Will correct.

The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts

The Clerk was charged \$1,435 in fees by the bank, for writing NSF Checks, overdrafts and failure to maintain a minimum balance. If cash were deposited timely, these charges would not have occurred. We recommend the Clerk monitor his bank balance more closely, and close his account in a timely fashion after finishing each year's business.

Clerk's Response: Will correct.

The Clerk Had Disallowed Bank Charges Of \$1,435 As A Result Of Bank Overdrafts

The Clerk should deposit \$1,435 of personal funds into the Clerk's 2003 fee account to cover disallowed service charges and late fees. We recommend the Clerk monitor his bank balance more closely.

Clerk's Response: Will correct.

The Clerk Should Retain All Bank Statements And Cancelled Checks

We recommend the clerk retain all bank statements and cancel checks at least until the calendar year audit has been completed.

Clerk's Response: Will correct.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Clerk Should Not Commingle Public And Private Funds

The clerk retains cash in an unsecured drawer. Under KRS 64.850, and TAB #93-002 the accumulation and retention of cash in excess of \$200 per necessary cash drawer is subject to be reported as an audit comment relating to commingling of public and private funds. We recommend the County Clerk comply with the Uniform System of Accounts, and make daily deposits intact.

Clerk's Response: Will correct.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Clerk Should Make Deposits In A Timely Manner

During 2003, the Clerk did not consistently make deposits in a timely manner. We recommend that the Clerk comply with KRS 68.210, 45 KAR 1:070, and TAB #93-002, and deposit "all public funds received into an official account, on a daily basis."

Clerk's Response: Will correct.

The Clerk Should Make Payments In A Timely Manner

The Clerk did not pay deed transfer tax collections to the County on a timely basis. We recommend the Clerk comply with KRS 142.050(4), which requires that deed taxes be reported and remitted to the county on a quarterly basis.

Clerk's Response: Will correct.

The Clerk Retains Cash In An Unsecured Desk Drawer

The Clerk had cash of \$335 in his unsecured desk drawer, according to a surprise cash count conducted on November 18, 2004. We recommend the County Clerk comply with the Uniform System of Accounts, and make daily deposits intact.

Clerk's Response: Will correct.

The Clerk Makes Deposits Of Cash Only, At Inconsistent Intervals

The Clerk made several cash only deposits, one specifically on January 26, 2004 for \$14,300 to the 2003 fee account. We recommend that the Clerk comply with the Uniform System of Accounts, and make daily deposits intact.

Clerk's Response: Will correct.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
(Continued)

The Clerk Did Not Post All Receipts And Disbursements

The clerk did not post all operating receipts and disbursements in the receipts and disbursements ledger. Therefore, the financial statement understated revenue and expenditures. We recommend the clerk include all receipts and disbursements in the receipt and disbursement ledgers.

Clerk's Response: Will correct.

The County Clerk Did Not Comply With The Uniform System Of Accounts

The abovementioned comments represent a considerable failure on behalf of the Owsley County Clerk to comply with the "Uniform System of Accounts" as adopted under KRS 68.210. Among other provisions, this statute requires the official to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the management of public funds by his office. The requirements for uniform formats of financial reports shall require that the format of reports for each category of county or district office shall be uniform. We recommend the Clerk meet minimum standards of accountability in compliance with the Uniform System of Accounts.

Clerk's Response: Will correct.

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected officials control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Clerk implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) the official recounting and depositing cash; 2) the official agreeing daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes; and the Clerk reconciling monthly reports to source documents and receipts and disbursement ledgers.

Clerk's Response: Will correct.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

PRIOR YEAR FINDINGS:

The following findings were included in the prior year audit and were not corrected:

- The Clerk Should Issue A Receipt For All Transactions
- Public Funds Should Be Deposited Into Interest-Bearing Accounts
- Payroll Records Should Be Adequately Maintained
- Payments Should Be Made From The 2002 Year Account For All 2002 Year Expenditures
- The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts
- The Clerk Had Disallowed Bank Charges As A Result Of Overdrafts
- The Clerk Should Retain All Bank Statements And Cancelled Checks
- The Clerk Should Not Commingle Public And Private Funds
- The Clerk Should Make Deposits In A Timely Matter
- The Clerk Should Make Payments In A Timely Matter
- The Clerk Should Make Payments By Check Only
- The Clerk Retains Large Amounts Of Cash In An Unsecured Desk Drawer
- The Clerk Makes Deposits Of Cash Daily, At Inconsistent Intervals
- The Clerk Did Not Post All Receipts And Disbursements
- The County Clerk Did Not Comply With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
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The Honorable Cale Turner, Owsley County Judge/Executive
Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We were engaged to audit statement of revenues, expenditures, and excess fees - regulatory basis of the Owsley County Clerk for the year ended December 31, 2003, and have issued our report thereon dated January 31, 2005, wherein we disclaimed an opinion on the financial statement because the County Clerk did not maintain adequate accounting records.

Compliance

As part of obtaining reasonable assurance about whether the Owsley County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Public Funds Should Be Deposited Into Interest-Bearing Accounts
- Payroll Records Should Be Adequately Maintained
- Payments Should Be Made From The 2003 Year Account For All 2003 Year Expenditures
- The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts
- The Clerk Had Disallowed Bank Charges of \$1,435 As A Result of Bank Overdrafts
- The Clerk Should Retain All Bank Statements And Cancelled Checks
- The Clerk Should Not Commingle Public And Private Funds

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Owsley County Clerk's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Clerk Should Make Deposits In A Timely Manner
- The Clerk Should Make Payments In A Timely Manner
- The Clerk Retains Cash In An Unsecured Desk Drawer
- The Clerk Makes Deposits Of Cash Only, At Inconsistent Intervals
- The Clerk Did Not Post All Receipts And Disbursements
- The County Clerk Did Not Comply With The Uniform System Of Accounts
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

